

**Financial Statements**

**Van Buren Community  
Mental Health Authority**

**Paw Paw, Michigan**

**September 30, 2006**



## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Van Buren CMH Authority	County Van Buren
Fiscal Year End September 30, 2006	Opinion Date December 1, 2006	Date Audit Report Submitted to State March 19, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

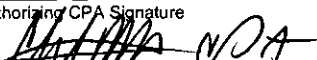
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**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Roslund, Prestage & Co., P.C.		Telephone Number (989) 463-6123	
Street Address 308 Gratiot Avenue		City Alma	State MI
Authorizing CPA Signature 		Printed Name Chad Payton	Zip 48801
		License Number 21946	

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September 30, 2006

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## **INDEPENDENT AUDITOR'S REPORT**

Van Buren Community Mental Health Authority  
Paw Paw, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Van Buren Community Mental Health Authority (the Authority), as of and for the year ended September 30, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of September 30, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2006 on our consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The other supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Roslund, Prestage & Co, PC*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

December 1, 2006

## **MANAGEMENT'S DISCUSSION and ANALYSIS**

**Van Buren Community Mental Health Authority  
Management's Discussion and Analysis  
For the Fiscal Year ended September 30, 2006**

The management of Van Buren Community Mental Health Authority (VBCMHA) presents the following discussion and analysis of financial activities during the fiscal year ended September 30, 2006. This discussion and analysis is provided to introduce the basic financial statements of the past year and to provide the reader information to help assess whether the financial position has improved or deteriorated as a result of the year's operations. Please read this section in conjunction with the auditor's report and with our financial statements, notes to financial statements and supplemental information taken as a whole.

Under the contractual requirements issued by the Michigan Department of Community Mental Health (MDCH), VBCMHA began in FY 2002-2003 receiving a sub-capitation Medicaid funding directly from Summit Pointe (a.k.a. Calhoun County Community Mental Health Authority). Summit Pointe is the regional Prepaid Inpatient Health Plan (PIHP) responsible for administering mental health and substance abuse services for a five county affiliation consisting of Barry, Berrien, Branch, Calhoun and Van Buren counties. The affiliation, known as Venture Behavioral Health, operates under an agreement pursuant to the Intergovernmental Transfer of Functions and Responsibilities Act (ITFRA).

**BASIC FINANCIAL STATEMENTS**

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) according to GASB 34, require the presentation of two types of financial statements: Government-wide Statements and Fund Statements.

**Government-wide financial statements** are designed to present the organization's finances in a layout similar to that of a private sector business. They consist of a Statement of Net Assets (providing historical balance sheet information) which shows the difference between assets and liabilities; and a Statement of Activities (providing historical income statement information) which shows revenues and expenses and the change in net assets from the previous year. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when "earned" and expenses recorded when "incurred", without regard to the timing of cash receipts or disbursements.

**Fund financial statements** offer a series of statements that focus on the major governmental funds. These statements contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. The governmental fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. For VBCMHA, the major funds consist of the General Fund and the New Outlook Fund (which are categorized as Governmental Funds). Reconciliations are also offered between the Fund Financial Statements and the Government – wide Financial Statements.

## **NOTES TO FINANCIAL STATEMENTS**

The Notes to Financial Statements, which immediately follow the financial statements, provide additional and more detailed information that is essential to a full understanding of the data provided in the financial statements. Items concerning significant accounting policies, stewardship, compliance and accountability, as well as detailed notes on all assets and liabilities, are provided in this section.

## **KEY FINANCIAL INDICATORS (VBCMHA General Fund)**

	Dun & Bradstreet Industry Benchmarks		
	VBCMHA <u>FY 05</u>	VBCMHA <u>FY 06</u>	FY 05 <u>Median</u>
<u>Financial Stability</u>			
Current Assets to Current Liabilities	2.90	2.68	2.30
Total Liabilities to Net Assets	.65	.70	.60
Fixed Assets to Net Assets	.11	.09	.65
Cash Available for Net Assets, %	1.21	1.26	N/A

Current financial ratios are compared with financial indicators for the last fiscal year and industry statistics (median) benchmarks as provided by Dun & Bradstreet for the specialty outpatient clinic industry.



**STATEMENT OF NET ASSETS**  
**(STATEMENT OF CHANGES IN FUND BALANCES)**

	Balance 10/01/05	Increase (Decrease)	Balance 09/30/06
<b>Assets</b>			
Current Assets	3,028,868	482,882	3,511,750
Noncurrent Assets	578,154	(7,695)	570,459
<b>Liabilities</b>			
Current Liabilities	1,057,099	253,334	1,310,433
Noncurrent Liabilities	367,060	(1,759)	365,301
<b>Net Assets</b>	<b>2,182,863</b>	<b>223,612</b>	<b>2,406,475</b>

**STATEMENT OF ACTIVITIES**  
**(REVENUES AND EXPENDITURES)**

**Revenues:** FY 06 audited revenues for governmental funds (in accordance with GAAP, and the requirements of GASB 34) are \$14,623,304. This amount does not include \$106,690 of MDCH funds "GF Carry-forward" that is recorded as deferred revenue for FY 07. The GF Carry-forward is included in the MDCH final report of revenues for a total of \$14,729,994. This compares to the FY 05 MDCH reportable revenues of \$13,473,262, for an increase of revenues of \$1,256,732 (representing a 9% increase). The overall increase was primarily attributable to an increase in Medicaid funds, State General funds, and Adult Benefit Waiver funds.

**Expenditures:** FY 06 audited expenditures for governmental funds (in accordance with GAAP, and the requirements of GASB 34) are \$14,399,692. This total includes depreciation expense on certain prior year asset purchases of \$38,146 and an adjustment to the Compensated Absences line item of \$1,759. These amounts are excluded from the MDCH final report of expenditures for a total of \$14,363,305. This compares to FY 05 reportable expenditures of \$13,589,630 (including \$490,680 of prior year Medicaid Savings), for an increase in expenditures of \$773,675 (representing a 6% increase). The overall increases were primarily attributable to increases in: personnel costs (approximately \$180,000); contracted residential and inpatient services (approximately \$372,000); contracted transportation (approximately \$100,000 due to rate increases); with the balance of increases across supplies, rents, utilities and other line items.

**Capital Outlay Expenditures:** FY 06 expenditures for Capital Outlay included computer hardware (\$17,149) and five (5) mini-van vehicles (\$96,950) to be used throughout the agency.

### **BUDGET VARIATIONS (Original to Final)**

Revenue and Expense Budgets were increased by \$316,385 from the original to the final versions. The most significant increases to Budgeted Revenues were to the State General Funds, Adult Benefit Waiver, and Medicaid revenue line items. The most significant increases to Budgeted Expenses were to the "Contracted Services" and "Contracted Transportation" line items.

### **CURRENTLY KNOW FACTS, DECISIONS, CONDITIONS**

The State of Michigan's level of funding for community mental health services remains uncertain for FY 2007 and beyond. The State's current budget deficit seems to be ever-growing. An Executive Order reduction may be necessary for General Fund appropriations for FY 2007; while the current FY 2008 budget deficit projection is approaching \$1.2 billion. As the State looks to draw-down more and more Federal Medicaid dollars, more and more existing General Fund dollars would be needed for match purposes. This becomes worrisome to community mental health programs already experiencing a strain on those dollars.

Recently enacted State Legislation (Section 460 of P.A. 154 of 2005), commonly referred to as "the administrative cost allocation initiative" sets out new requirements beginning in FY 2007. All Pre-paid Inpatient Health Plans (PIHP's) and Community Mental Health Services Programs (CMHSP's) will be required to submit to the State Department of Community Health (MDCH) a formal and detailed Cost Allocation Plan. The Cost Allocation Plan is to be consistent with the requirements and principles of the Federal OMB Circular A-87. This allocation model was developed for the specific purpose and limited scope of providing common definitions for consistent assignment of certain costs (primarily administrative costs), and for reporting the results to the State Legislature.

**BASIC FINANCIAL STATEMENTS -  
GOVERNMENT WIDE FINANCIAL STATEMENTS**

Van Buren Community Mental Health Authority  
Statement of Net Assets  
September 30, 2006 and 2005

	Governmental Activities	
	2006	2005
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$3,038,376	\$2,640,877
Accounts receivable, net	56,778	69,371
Due from other governmental units	315,474	126,112
Prepaid items	101,122	192,508
Total current assets	3,511,750	3,028,868
Noncurrent assets		
Cash and cash equivalents - restricted	101,958	2,835
Investments - restricted	243,503	331,042
Capital assets - depreciable, net	224,998	244,277
Total noncurrent assets	570,459	578,154
Total assets	4,082,209	3,607,022
<b>Liabilities</b>		
Current liabilities		
Accounts payable	653,728	561,305
Accrued wages and other payroll liabilities	124,591	118,193
Due to other governmental units	420,504	270,163
Deferred revenue	111,610	107,438
Total current liabilities	1,310,433	1,057,099
Noncurrent liabilities		
Compensated absences	365,301	367,060
Total liabilities	1,675,734	1,424,159
<b>Net Assets</b>		
Invested in capital assets, net of related debt	224,998	244,277
Reserved for grant	328,829	309,595
Unrestricted	1,852,648	1,628,991
Total net assets	\$2,406,475	\$2,182,863

See Accompanying Notes To Financial Statements

Van Buren Community Mental Health Authority  
Statement of Activities  
For the year ended September 30, 2006, With Comparative Data

Functions	Program Revenues			Net (Expense) Revenue and Changes Net Assets	2005
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental activities					
Health & Welfare - Mental Health	<u>\$14,399,692</u>	<u>\$11,248,133</u>	<u>\$3,271,620</u>	\$120,061	(\$348,759)
General revenues					
Unrestricted investment earnings				<u>103,551</u>	<u>49,165</u>
Change in net assets				223,612	(299,594)
Net assets, beginning of year				<u>2,182,863</u>	<u>2,482,457</u>
Net assets, end of year				<u>\$2,406,475</u>	<u>\$2,182,863</u>

See Accompanying Notes To Financial Statements

## **FUND FINANCIAL STATEMENTS**

Van Buren Community Mental Health Authority  
Balance Sheet  
Governmental Funds  
September 30, 2006, With Comparative Data

	<b>MAJOR FUNDS</b>			
	General Fund	New Outlook Fund	Total Governmental Funds	2005
<b>Assets</b>				
Cash and cash equivalents	\$2,704,493	\$333,883	\$3,038,376	\$2,640,877
Accounts receivable, net	56,778	-	56,778	69,371
Due from other governmental units	306,124	9,350	315,474	126,112
Prepaid items	101,122	-	101,122	192,508
Cash and cash equivalents - restricted	101,958	-	101,958	2,835
Investments - restricted	243,503	-	243,503	331,042
Total assets	<u>\$3,513,978</u>	<u>\$343,233</u>	<u>\$3,857,211</u>	<u>\$3,362,745</u>
<b>Liabilities</b>				
Accounts payable	\$645,327	\$8,401	\$653,728	\$561,305
Accrued wages and other payroll liabilities	118,588	6,003	124,591	118,193
Due to other governmental units	420,504	-	420,504	270,163
Deferred revenue	111,610	-	111,610	107,438
Total liabilities	<u>1,296,029</u>	<u>14,404</u>	<u>1,310,433</u>	<u>1,057,099</u>
<b>Fund balances</b>				
Restricted for grant	-	328,829	328,829	309,595
Reserved for prepaid items	101,122	-	101,122	192,369
Reserved for compensated absences	339,341	-	339,341	340,975
Unreserved	1,777,486	-	1,777,486	1,462,707
Total fund balances	<u>2,217,949</u>	<u>328,829</u>	<u>2,546,778</u>	<u>2,305,646</u>
Total liabilities and fund balances	<u>\$3,513,978</u>	<u>\$343,233</u>	<u>\$3,857,211</u>	<u>\$3,362,745</u>

See Accompanying Notes To Financial Statements

Van Buren Community Mental Health Authority  
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds  
To Net Assets of Governmental Activities on the Statement of Net Assets  
For the year ended September 30, 2006

Total fund balance - governmental funds	\$2,546,778
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Amounts reported for governmental activities in the statement of  
net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported in the funds.

Add:    capital assets	1,439,450
Deduct: accumulated depreciation	(1,214,452)

Some liabilities are not due and payable in the current period and  
therefore are not reported in the funds. Those liabilities consist of:

Deduct: compensated absences	<u>(365,301)</u>
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Net assets of governmental activities	<u><u>\$2,406,475</u></u>
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See Accompanying Notes To Financial Statements



Van Buren Community Mental Health Authority  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the year ended September 30, 2006, With Comparative Data

	MAJOR FUNDS		Total Governmental Funds	2005
	General Fund	New Outlook Fund		
<b>REVENUES</b>				
State grants				
Department of Community Health Contract				
General Fund Formula and Categorical	\$2,195,677	-	\$2,195,677	\$2,050,574
Adult Benefit Waiver	276,862	-	276,862	257,505
Title XX	13,017	-	13,017	13,017
Total state grants	<u>2,485,556</u>	<u>-</u>	<u>2,485,556</u>	<u>2,321,096</u>
Federal grants	<u>350,001</u>	<u>-</u>	<u>350,001</u>	<u>306,026</u>
Contributions - local units				
County appropriations	<u>262,500</u>	<u>-</u>	<u>262,500</u>	<u>300,000</u>
Charges for services				
Medicaid - Venture contract	10,248,224	\$393,550	10,641,774	9,548,475
Medicaid - other	115,256	-	115,256	99,683
Client and third party pay	262,779	-	262,779	312,620
Other earned revenue	116,124	112,200	228,324	253,311
Total charges for services	<u>10,742,383</u>	<u>505,750</u>	<u>11,248,133</u>	<u>10,214,089</u>
Interest and rents				
Interest	<u>90,722</u>	<u>12,829</u>	<u>103,551</u>	<u>49,165</u>
Other revenue				
MTI income	131,098	-	131,098	134,256
United Way	31,000	-	31,000	34,750
Miscellaneous	11,465	-	11,465	7,493
Total other revenue	<u>173,563</u>	<u>-</u>	<u>173,563</u>	<u>176,499</u>
Total revenues	<u>14,104,725</u>	<u>518,579</u>	<u>14,623,304</u>	<u>13,366,875</u>

See Accompanying Notes To Financial Statements

Van Buren Community Mental Health Authority  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the year ended September 30, 2006 With Comparative Data

	<b>MAJOR FUNDS</b>		Total Governmental Funds	2005
	General Fund	New Outlook Fund		
<b>EXPENDITURES</b>				
Health & Welfare - Mental Health				
Personnel costs	\$7,069,647	\$360,129	\$7,429,776	\$7,249,678
Operating expenditures	6,761,277	77,020	6,838,297	6,271,795
Capital outlay	114,099	-	114,099	127,082
Total expenditures	13,945,023	437,149	14,382,172	13,648,555
Excess of revenues over expenditures	159,702	81,430	241,132	(281,680)
Other financing sources (uses)				
Operating transfers in (out)	62,196	(62,196)	-	-
Excess of revenues and other sources Over expenditures and other uses	221,898	19,234	241,132	(281,680)
Fund balance, beginning of year	1,996,051	309,595	2,305,646	2,587,326
Fund balance, end of year	\$2,217,949	\$328,829	\$2,546,778	\$2,305,646

See Accompanying Notes To Financial Statements

Van Buren Community Mental Health Authority  
Reconciliation of the Statement of Revenues, Expenditures  
And Changes in Fund Balances of Governmental Funds  
To the Statement of Activities  
For the year ended September 30, 2006

Net change in fund balances - total governmental funds	\$241,132
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Amounts reported for governmental activities in the statement of activities  
are different because:

Governmental funds report capital outlays as expenditures. However,  
in the statement of activities, the cost of those assets is allocated over  
their estimated useful lives as depreciation expense.

Add: capital outlay	114,099
Deduct: depreciation expense	(133,378)

Some expenses reported in the statement of activities do not require the  
use of current financial resources and therefore are not reported as  
expenditures in the funds.

Add: decrease in accrual for compensated absences	<u>1,759</u>
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Change in net assets of governmental activities	<u><u>\$223,612</u></u>
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See Accompanying Notes To Financial Statements

## **NOTES TO THE FINANCIAL STATEMENTS**

Van Buren Community Mental Health Authority  
Notes to Financial Statements

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Van Buren Community Mental Health Authority (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

**Reporting Entity**

The Authority operates as a Community Mental Health Authority under the provisions of Act 258 - Public Acts of 1974, as amended. The Authority provides funding for services in the areas of mental illness, developmental disabilities, and other related mental health needs for residents of Van Buren County.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues rather than as program revenues.

Van Buren Community Mental Health Authority  
Notes to Financial Statements

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Government-Wide Financial Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. An exception to the "60 day" rule is the recognition of certain patient fee revenues and the related receivables. The Authority has elected to recognize these revenues on the cash basis of accounting, which is in compliance with the Department of Community Health's revenue recognition formula. The difference between the cash basis of accounting and modified accrual basis of accounting for these revenues are not material to the financial statements. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Van Buren Community Mental Health Authority  
Notes to Financial Statements

The Authority reports the following major governmental funds:

**Governmental Funds**

General Fund - This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.  
New Outlook Fund - This fund accounts for the financial activities of the child and family collaborative funding arrangement providing wraparound services to the residents of Van Buren County.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**Comparative Data**

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

**Budgetary Data**

The Authority adopts an annual budget for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

**Cash and Cash Equivalents**

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

**Restricted Cash Equivalents and Investments**

The Authority has charged to the Department of Community Health the vested portion of compensated absences as of September 30. These restricted assets are held in a separate account with a local financial institution.

Van Buren Community Mental Health Authority  
Notes to Financial Statements

**Receivables**

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health, the State of Michigan and the Calhoun County CMH Authority.

**Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Inventories**

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

**Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.



Van Buren Community Mental Health Authority  
Notes to Financial Statements

Capital assets of the Authority are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Computer Equipment	3 – 5
Office Equipment	5 – 10
Vehicles	7 – 10

**Inpatient / Residential Cost Liability**

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Authority does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60 day period after year end. Also, the actual cost may vary from the estimated due to reimbursements from third party payors that are applied to the total cost before the billings are sent to the Authority. This liability is included in due to other governmental units.

**Deferred Revenue**

Deferred revenues arise when resources are received by the Authority before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

**Governmental Fund – Fund Balance Reserves and Designations**

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use.

Van Buren Community Mental Health Authority  
Notes to Financial Statements

**MDCH Revenue**

*General Fund Revenue*

The Board provides mental health services on behalf of the Michigan Department of Community Health (MDCH). Currently, the Board contracts directly with the MDCH for General Fund revenues to support the services provided for priority population residing in Van Buren County.

*Medicaid Revenue*

Also, the Board contracts to receive Medicaid revenue through Summit Pointe for Medicaid-qualified services rendered to residents of Van Buren County. Summit Pointe contracts with the MDCH to administer these Medicaid funds.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

**Excess of Expenditures over Appropriations**

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2006, the Authority incurred expenditures in excess of the amounts appropriated as shown on pages 22 – 24 of this report as unfavorable variances.

Van Buren Community Mental Health Authority  
Notes to Financial Statements

**NOTE 3 - DETAIL NOTES**

**Cash and Cash Equivalents**

At September 30<sup>th</sup>, the carrying amount of the Authority's cash and cash equivalents are as follows:

	2006	2005
Petty cash	\$1,726	\$4,200
Cash deposits	2,062,358	2,639,512
Certificates of deposit	1,076,250	-
<b>Totals</b>	<b>\$3,140,334</b>	<b>\$2,643,712</b>

*Custodial Credit Risk – Deposits*

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. At September 30, 2006, the carrying amount of the Authority's deposits was \$3,138,608, and the bank balance was \$3,375,011. Of the bank balance, \$257,387 was covered by federal depository insurance and \$3,117,624 was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

A reconciliation of deposits as shown above follows:

	2006	2005
Cash and cash equivalents – current assets	\$3,036,650	\$2,636,677
Cash and cash equivalents – restricted assets	101,958	2,835
<b>Totals</b>	<b>\$3,138,608</b>	<b>\$2,639,512</b>

Van Buren Community Mental Health Authority  
Notes to Financial Statements

**Investments**

As of September 30, 2006, the Authority had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (years)	Standard & Poor's Rating	%
Federal Farm Credit Banks Debenture	\$68,207	0.8000	AAA	28%
Federal Home Loan Banks Debenture	140,711	0.0903	AAA	58%
Federal National Mortgage Association	34,585	0.3600	AAA	14%
Total fair value	\$243,503			100%
Portfolio weighted average maturity		0.3268		
1 day maturity equals 0.0027, one year equals 1.00				

Investments

State statutes authorize the Authority to invest in obligations and certain repurchase agreements of the United States Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments. See above for a listing of the Authority's investments.

The Authority's investment policy complies with the State statutes and has no additional investment policies that would limit its investment choices.

Interest Rate Risk – Investments

Under State statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The Authority's investment policy does not place any further limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Van Buren Community Mental Health Authority  
Notes to Financial Statements

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover the value of its investments that are in the possession of an outside party. The Authority requires all security transactions, including collateral for repurchase agreements, to be made on a cash basis or a delivery vs. payment basis. Securities may be held by a third party custodian and must be evidenced by safekeeping receipts. The Authority does not have any additional policies for custodial credit risk over investments.

Credit Risk

State statutes limit investments in commercial paper to be rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and banker's acceptances with United States banks. The Authority's investment policy limits investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

Concentration of Credit Risk

The Authority places no limit on the amount it may invest in any one issuer.

**Due from Other Governmental Units**

Due from other governmental units as of September 30, consists of the following:

	2006	2005
Calhoun County CMH Authority	-	\$25,764
Federal Grants Receivable	\$27,912	14,391
State of Michigan – Medicaid – Children Waiver	48,385	23,913
Van Buren County	202,476	-
Other Governmental Units	36,701	62,044
<b>Totals</b>	<b>\$315,474</b>	<b>\$126,112</b>

Van Buren Community Mental Health Authority  
Notes to Financial Statements

**Capital Assets**

A summary of changes in capital assets is as follows:

<b>Assets</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Computer Equipment	\$421,415	\$17,149	-	\$438,564
Office Equipment	320,602	-	-	320,602
Vehicles	597,155	96,950	(\$13,821)	680,284
Sub-totals	1,339,172	114,099	(13,821)	1,439,450
Accumulated Depreciation	(1,094,895)	(133,378)	\$13,821	(1,214,452)
<b>Totals</b>	<b>\$244,277</b>	<b>(\$19,279)</b>	<b>-</b>	<b>\$224,998</b>

Depreciation expense was charged to the Health & Welfare – Mental Health Program.

**Due to Other Governmental Units**

Due to other governmental units as of September 30, consist of the following:

	<b>2006</b>	<b>2005</b>
Department of Community Health	\$145,066	\$140,963
Calhoun County CMH Authority	275,438	129,200
<b>Totals</b>	<b>\$420,504</b>	<b>\$270,163</b>

**Accrued Wages and Other Payroll Liabilities**

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.

**Deferred Revenue**

The amount reported as deferred revenue represents the carry forward allowance for the general fund portion of the Department of Community Health's authorization.

Van Buren Community Mental Health Authority  
Notes to Financial Statements

**Long-Term Debt – Compensated Absences**

Authority policy allows full time employees to accumulate paid time off at various rates, depending on the employee's length of service with the Authority. Amounts accumulated up to a maximum accrual are to be paid to the employee and recognized as an expense either when compensated absences are used, upon termination of employment, or in accordance with a certain "payment in lieu of using discretionary hours" policy of the Authority. As of September 30, 2006 and 2005, compensated absences liability was \$365,301, and \$367,060, respectively.

**Operating Leases**

The Authority has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations, and therefore, the leased assets are not reflected in the government-wide financial statements.

The future minimum rental payments required under the operating leases that have initial or remaining noncancelable lease terms as of September 30, 2006 are as follows:

<b>YEAR ENDING SEPTEMBER 30,</b>	<b>AMOUNT</b>
2007	\$138,794
2008	140,933
2009	144,900
2010	-

**Retirement System**

*Plan Description*

The employees of the Authority are eligible to participate in the Van Buren County Retirement Plans, which include a 457 Deferred Compensation Plan and a 401(a) Employee Thrift Plan. These plans are available to all employees hired to perform at least 900 hours of service per year.

Van Buren Community Mental Health Authority  
Notes to Financial Statements

Funding Policy

Employee deferrals to the 457 plan are allowed in accordance with Internal Revenue Code limitations. The Authority will match employee contributions up to a maximum of 6% of wages for union employees and 7% for non-union employees. Employer contributions will be made to the 401(a) plan.

Employee contributions are fully vested at all times. Employer contribution's for each employee becomes fully vested after 4 years of employment with the Authority.

For the September 30, 2006 fiscal year, employer contributions to the plan totaled \$245,630 and employee contributions totaled \$362,052. The total payroll for the year ending September 30, 2006 was \$5,429,339.

**Alternative Social Security Plan**

Plan Description

Effective January 1, 2000, certain employees of the Authority participate in a tax qualified retirement plan in lieu of the Social Security Retirement System. Employees of the Authority who work at least 30 hours per week are eligible to participate in the plan. If eligible, the employee must elect to participate in the plan.

Funding Policy

Employee contributions to this plan are at the rate of 6.2% of gross wages, with an equal amount contributed by the employer. The employee / employer contribution rates are the same as if participating in the Social Security Retirement System. Under this plan, all contributions are immediately vested with the employee. Employees who do not participate in this plan are required to participate in the Social Security Retirement System.

**Compliance Audits**

The Authority participates in various federal, state, and local grants for mental health and substance abuse programs. Certain provisions and allowable levels of participation and expenditures not qualifying for participation are subject to interpretation and adjustment by appropriate governmental agencies. State grants are subject to audit by responsible state agencies. Although these audits may result in some changes, they are not expected to have a material effect on the financial statements.

**Risk Management - Michigan Municipal Risk Management Authority**

The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for general liability coverage.



Van Buren Community Mental Health Authority  
Notes to Financial Statements

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Authority is responsible for paying all costs, including damages, indemnification, and allocated loss adjustment for each occurrence that falls within the member's self-insured retention (SIR). The Authority's SIR is between \$-0- and \$250. After the Authority's SIR and deductibles have been satisfied, MMRMA will be responsible for paying all remaining costs, including damages, indemnification, and allocated loss adjustment expenses to the limits of coverage stated below.

MMRMA coverage limits are between \$2,000 and \$15,000,000 for liability, and between \$10,000 and \$200,000,000 for property and crime.

The contribution made by the Authority to the MMRMA was \$108,222 for the period July 1, 2006 to July 1, 2007.

Settled claims, if any, for the MMRMA have not exceeded the amount of coverage in any of the past three years and there was no reduction in coverage during the past year.

### **Commitments and Contingencies**

As of September 30, 2006, the Authority had the following contingencies which are not recognized in these financial statements:

- Michigan Department of Community Health (MDCH) compliance audit for the 2002 fiscal year – preliminary report indicates \$132,477 is due from the Authority to the MDCH. The Authority, however, contests some of the issues noted in the report and feel that a final amount of liability is uncertain. The Authority is still in the negotiation stage with the MDCH regarding this compliance audit.

## **REQUIRED SUPPLEMENTAL INFORMATION**

Van Buren Community Mental Health Authority  
Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget and Actual  
General Fund  
For the year ended September 30, 2006

	<u>Budgeted Amounts</u>			Variance Between Actual and Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
State grants				
Department of Community Health Contract				
General Fund Formula and Categorical	\$2,147,946	\$2,302,367	\$2,195,677	(\$106,690)
Adult Benefit Waiver	253,848	276,862	276,862	-
Title XX	13,017	13,017	13,017	-
Total state grants	<u>2,414,811</u>	<u>2,592,246</u>	<u>2,485,556</u>	<u>(106,690)</u>
Federal grants	<u>351,548</u>	<u>364,746</u>	<u>350,001</u>	<u>(14,745)</u>
Contributions - local units				
County appropriations	<u>273,750</u>	<u>262,500</u>	<u>262,500</u>	<u>-</u>
Charges for services				
Medicaid - Venture contract	10,449,808	10,626,006	10,248,224	(377,782)
Medicaid - other	105,000	116,250	115,256	(994)
Client and third party pay	275,000	253,742	262,779	9,037
Other earned revenue	<u>124,130</u>	<u>111,130</u>	<u>116,124</u>	<u>4,994</u>
Total charges for services	<u>10,953,938</u>	<u>11,107,128</u>	<u>10,742,383</u>	<u>(364,745)</u>
Interest and rents				
Interest	<u>55,802</u>	<u>57,604</u>	<u>90,722</u>	<u>33,118</u>
Other revenue				
MTI income	100,000	85,000	131,098	46,098
United Way	31,000	31,000	31,000	-
Miscellaneous	<u>17,151</u>	<u>14,161</u>	<u>11,465</u>	<u>(2,696)</u>
Total other revenue	<u>148,151</u>	<u>130,161</u>	<u>173,563</u>	<u>43,402</u>
Total revenues	14,198,000	14,514,385	14,104,725	(409,660)

See Accompanying Notes To Financial Statements

Van Buren Community Mental Health Authority  
Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget and Actual  
General Fund  
For the year ended September 30, 2006

	<u>Budgeted Amounts</u>			Variance Between Actual and Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Expenditures</b>				
Health & Welfare - Mental Health				
Personnel costs	\$7,405,767	\$7,407,327	\$7,069,647	\$337,680
Operating expenditures	6,696,733	7,011,558	6,761,277	250,281
Capital outlay	95,500	95,500	114,099	(18,599)
Total expenditures	<u>14,198,000</u>	<u>14,514,385</u>	<u>13,945,023</u>	<u>569,362</u>
Revenues over (under) expenditures	-	-	159,702	159,702
Other financing sources (uses)				
Operating transfers in (out)	<u>-</u>	<u>-</u>	<u>62,196</u>	<u>62,196</u>
Excess of revenues and other sources over expenditures and other uses	-	-	221,898	221,898
Fund balance, beginning of year	<u>1,996,051</u>	<u>1,996,051</u>	<u>1,996,051</u>	<u>-</u>
Fund balance, end of year	<u>\$1,996,051</u>	<u>\$1,996,051</u>	<u>\$2,217,949</u>	<u>\$221,898</u>

See Accompanying Notes To Financial Statements

Van Buren Community Mental Health Authority  
Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget and Actual  
New Outlook Fund  
For the year ended September 30, 2006

	<u>Budgeted Amounts</u>			Variance Between Actual and Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Charges for services				
Medicaid - Venture contract	\$408,000	\$408,000	\$393,550	(\$14,450)
Other earned revenue	100,980	100,980	112,200	11,220
Total charges for services	<u>508,980</u>	<u>508,980</u>	<u>505,750</u>	<u>(3,230)</u>
Interest and rents				
Interest	<u>13,020</u>	<u>13,020</u>	<u>12,829</u>	<u>(191)</u>
Total revenues	522,000	522,000	518,579	(3,421)
<b>Expenditures</b>				
Health & Welfare - Mental Health				
Personnel costs	392,985	392,985	360,129	32,856
Operating expenditures	<u>129,015</u>	<u>129,015</u>	<u>77,020</u>	<u>51,995</u>
Total expenditures	<u>522,000</u>	<u>522,000</u>	<u>437,149</u>	<u>84,851</u>
Revenues over (under) expenditures	-	-	81,430	81,430
Other financing sources (uses)				
Operating transfers in (out)	<u>-</u>	<u>-</u>	<u>(62,196)</u>	<u>(62,196)</u>
Excess of revenues and other sources over expenditures and other uses	-	-	19,234	19,234
Fund balance, beginning of year	<u>309,595</u>	<u>309,595</u>	<u>309,595</u>	<u>-</u>
Fund balance, end of year	<u>\$309,595</u>	<u>\$309,595</u>	<u>\$328,829</u>	<u>\$19,234</u>

See Accompanying Notes To Financial Statements

## **OTHER SUPPLEMENTAL INFORMATION**

Van Buren Community Mental Health Authority  
Supporting Schedule of Personnel Costs  
For the years ended September 30, 2006 and 2005

	General Fund	
	2006	2005
<b>Personnel Costs</b>		
Salaries and wages	\$5,163,936	\$5,108,941
Fringe benefits	1,905,711	1,787,702
 Total Personnel Costs	 <u>\$7,069,647</u>	 <u>\$6,896,643</u>

See Accompanying Notes To Financial Statements

Van Buren Community Mental Health Authority  
Supporting Schedule of Operating Expenditures  
For the years ended September 30, 2006 and 2005

	General Fund	
	2006	2005
<b>Operating Expenditures</b>		
Communications	\$140,945	\$103,888
Contractual services	5,011,776	4,647,076
Insurance	100,324	96,455
Local funds contribution	218,294	218,294
Other	40,509	36,478
Rents and utilities	437,048	421,952
Repairs and maintenance	113,337	114,469
Supplies	265,721	211,245
Transportation	250,000	147,164
Travel and conferences	183,323	190,500
	<u>183,323</u>	<u>190,500</u>
 Total Operating Expenditures	 <u>\$6,761,277</u>	 <u>\$6,187,521</u>

See Accompanying Notes To Financial Statements





**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Van Buren Community Mental Health Authority  
Paw Paw, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Van Buren Community Mental Health Authority (the Authority) as of and for the year ended September 30, 2006, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated December 1, 2006.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.



Roslund, Prestage & Company, P.C.  
Certified Public Accountants

December 1, 2006



## MANAGEMENT LETTER

Board of Directors  
Van Buren Community Mental Health Authority  
Paw Paw, Michigan

In planning and performing our audit of the financial statements for Van Buren Community Mental Health Authority for the fiscal year ended September 30, 2006, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated December 1, 2006 on the financial statements of Van Buren Community Mental Health Authority.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

December 1, 2006

### **Provide Health Savings Accounts**

Due to exploding costs of providing health insurance to the Authority's employees, bearing in mind that health insurance is a union negotiable item, we believe the Authority could take advantage of health savings accounts as a means of cost reductions while minimizing the additional cost to employees.

Health Savings Accounts were established by the Medicare Prescription Drug and Modernization Act of 2003. These accounts operate like IRAs and allow eligible individuals to make a tax-deductible contribution to cover the cost of the deductible of a high-deductible policy. To be eligible to make a contribution, the deductible must be at least \$1,100 for single coverage and \$2,200 for family coverage. The contribution is limited to \$2,850 for single coverage or \$5,650 for family coverage. These amounts will be inflation adjusted each year. The contribution limits for individuals 55 or older are allowed to be increased in accordance with IRS Regulations. The individual can take tax-free withdrawals from the account to pay for the deductible when obtaining health care under the insurance policy.

Health Savings Accounts have several beneficial features:

- On the individual's tax return, the deduction is claimed above the line for arriving at adjusted gross income, so individuals can claim it whether they itemize or not.
- There is no phase-out to the deduction for higher-income individuals like there is with an IRA.
- Any income earned on amounts in the account is tax-free for federal income tax purposes.
- Contributions not withdrawn for medical expenses can remain in the account to build a reserve for future years' expenses.
- Money can be withdrawn from the Health Savings Account to pay for qualified medical expenses. Any money withdrawn for other reasons will be subject to a 10 percent penalty and taxation. HSA holders over 65 years of age may use the account as a retirement nest egg and withdraw money for any reason without penalty.
- The Authority may, but need not, make deductible contributions for its employees; employer contributions are not subject to employment taxes and are not taxable to the employees.

A number of insurance companies offer high-deductible plans designed to enable employers of all sizes to take advantage of health savings accounts. Some insurers will also provide administrative services for the savings accounts.

### **Unemployment Costs**

The Authority is considered a reimbursing employer by the Michigan Employment Security Commission and accordingly, reimburses the State of Michigan for the amount of unemployment benefits charged against the Authority. Every quarter, the Authority receives notice from the MESB indicating the amount of charges incurred. We recommend management recognize this cost and related liability in the general ledger as notices are received.

### **County Appropriation**

During our audit, we noted 77% of the County appropriation revenue for the current fiscal year was not paid to the Authority as of September 30th. In the future, we recommend management monitor the timing of receipts for this revenue type to ensure maximization of investment income. In prior years, the County has paid their appropriations to the Authority on a quarterly basis.

### **GASB Statement No. 45**

Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was approved by the GASB in June of 2005. Other postemployment benefits are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they stop working. They include all postemployment healthcare benefits and any other type of benefits that are provided separately from a pension plan.

The basic premise of GASB 45 is that other postemployment benefits are earned and should be recognized when the employee provides services, just like wages and compensated absences.

We recommend the Authority consider the effects of GASB 45 on any current or future postemployment benefits packages.

The effective date for the Authority to implement this new standard is for the fiscal year ending September 30, 2009. However, earlier application is encouraged by the GASB.